

## Message Text

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ACTION EB-07

INFO OCT-01 EA-07 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01  
CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-01 INR-07  
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06  
OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01 PRS-01  
/097 W

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R 200843Z DEC 76  
FM AMEMBASSY MANILA  
TO SECSTATE WASHDC 4063  
INFO AMEMBASSY SINGAPORE  
AMEMBASSY JAKARTA  
AMEMBASSY BANGKOK  
AMEMBASSY KUALA LUMPUR  
AMCONSUL HONG KONG

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E.O. 11652 NA  
TAGS: ENGR, RP  
SUBJECT: GOP REACTION TO OPEC PRICE INCREASE

REF: MANILA 18520

1. OIL PRODUCT PRICES WILL INCREASE ACROSS THE BOARD BY  
10 TO 15 CENTAVOS PER LIITER AS A RESULT OF THE OPEC CRUDE  
OIL PRICE INCREASE, ACCORDING TO GERONIMO VELASCO, CHAIRMAN,  
PHILIPPINE NATIONAL OIL COMPANY (PNOC). IN A SPEECH BEFORE  
THE BATASANG BAYAN (NATIONAL LEGISLATIVE ADVISORY COUNCIL)  
DECEMBER 18 REPORTED IN BULLETIN TODAY, HE ALSO SAID TAX  
MEASURES TO DISCOURAGE UNPRODUCTIVE CONSUMPTION WOULD BE PART  
OF THE PRICE INCREASE PACKAGE. FYI: THERE HAS BEEN RECENT  
SPECULATION ABOUT POSSIBLE NEW SPECIFIC TAXES ON PETROLEUM  
PRODUCTS AS AN ADDITIONAL REVENUE SOURCE, AND A SIGNIFICANT  
INCREASE IN THE SPECIAL FUND TAX IS ALSO TO BE EXPECTED (REFTEL).

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2. VELASO PREDICTED THAT THE HIGHER OPEC PRICES WILL  
BRING ABOUT A BILLION DOLLAR OIL BILL IN 1977. HE SAID  
THE OPEC INCREASE WILL ADD 70 MILLION DOLLARS TO THE OIL BILL,  
IN ADDITION TO THE 64 MILLION DOLLAR ANTICIPATED ADDITIONAL  
COSTS BROUGHT ABOUT BY THE PROJECTED SEVEN PERCENT GROWTH  
IN DEMAND. HE ADDED THE 1977 OIL IMPORT BILL IS EXPECTED

TO REACH 1.041 BILLION DOLLARS.

3. VELASCO SAID THE GOVERNMENT WILL CONTINUE TO STICK CLOSELY TO ITS SOCIALIZED PRICING POLICY WHEN THE RETAIN PRICES ARE RAISED. HEROSENE, COOKING GAS AND FUEL OIL WILL SEE THE LEAST PRICE INCREASES. HE ALSO SAID THE GOVERNMENT WILL LIMIT THE PRICE INCREASES RESULTING TO THE OIL COMPANIES TO THE RECOVERY OF CRUDE COSTS ONLY. THIS WILL BE A DISAPPOINTMENT TO THE FIRMS WHICH HAD HOPED TO LOOK BEYOND CRUDE PRICE COST RECOVERY THIS TIME AROUND, AND SEEK INFLATIONARY INCREASES RELATED TO MARKETING AND REFINING COSTS AS WELL (REFTEL).

4. COMMENT: THE OFFICIAL PRICE-SETTING AGENCY IS THE OIL INDUSTRY COMMISSION (OIC). THE LAW REQUIRES THAT EACH OIL FIRM PETITION FOR A PRICE INCREASE INDIVIDUALLY. THE OIC THEN CONDUCTS PUBLIC HEARINGS, AND ISSUES ITS FINDINGS ON WHAT PRICE INCREASES ARE WARRANTED. WE KNOW THAT MOBILE, CALTEX, SHELL, AND GETTY, WERE POISED WITH THEIR PETITIONS, BASED ON VARIOUS POSSIBLE OUTCOMES, LONG BEFORE THE DOHA OPEC MEETING. HOWEVER, THE TWO TIER PRICE STRUCTURE WILL NECESSITATE SOME REDRAFTING. VELASCO'S ANNOUNCEMENT ACKNOWLEDGES PUBLICLY THAT OIL PRODUCT PRICES ARE MANDATED BY HIM AND THE PALACE AND ARE NOT THE RESULT OF ANY OBJECTIVE HEARING BY THE OIC. HOWEVER, WE EXPECT TO SEE THE FACADE OF PRICE INCREASE PEITIOND AND PUBLIC HEARINGS CONTINUED OVER THE NEXT TWO MONTHS, WITH OFFICIAL PRICE INCREASES ANNOUNCED AND EFFECTIVE SOMETIME IN MARCH 77 AFTER LIMITED OFFICIAL USE  
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PRESENT CRUDE INVENTORIES ARE DEPLETED. THE NEW PRICES WILL INCLUDE A SMALL MARGIN FOR THE OIL COMPANIES, JUST ENOUGH TO KEEP THEM AT THE BREAK-EVEV POINT, AND A LARGE MARGIN FOR THE GOVERNMENT TO MAKE UP FOR THE SERIOUS REVENUE SHORTFALLS IT EXPERIENCED THIS YEAR DUE TO SLOW ECONOMIC ACTIVITY. END COMMENT.

SULLIVAN

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## Message Attributes

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